

MKT100/300 - Margins vs Markups

Margins

- % based on **cost**
- \$ amount you want to add to cost to determine price

Markups

- % based on **price**
- \$ amount of selling price available to cover costs

Margin \$ = Markup \$ Margin % ≠ Markup %

FORMULAS

Margins

$$\text{Margin \$} = \text{Selling Price} - \text{Cost}$$

$$\text{Margin \%} = \frac{\text{Price} - \text{Cost}}{\text{Price}}$$

Rearranged to find margin price:

$$\text{Price} = \frac{\text{Cost}}{1 - \text{Margin \%}}$$

Rearranged to find margin cost:

$$\text{Cost} = \text{Price} - (\text{Price} \times \text{Margin \%})$$

Markups

$$\text{Markup \$} = \text{Selling Price} - \text{Cost}$$

$$\text{Markup \%} = \frac{\text{Price} - \text{Cost}}{\text{Cost}}$$

Rearranged to find markup price:

$$\text{Price} = \text{Cost} \times (1 + \text{Markup \%})$$

Rearranged to find markup cost:

$$\text{Cost} = \frac{\text{Price}}{1 + \text{Markup \%}}$$

Example 1: A hat costs \$10 and a retailer sells it at a price of \$15. What is the margin and markup in dollars and percentages?

Margin and Markup (\$):

$$= \text{Selling Price} - \text{Cost}$$

$$= 15 - 10$$

$$= \$5$$

Margin (%):

$$= \frac{\text{Price} - \text{Cost}}{\text{Price}}$$

$$= \frac{15 - 10}{15}$$

$$= 33\%$$

Markup (%):

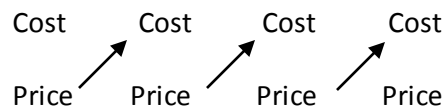
$$= \frac{\text{Price} - \text{Cost}}{\text{Cost}}$$

$$= \frac{15 - 10}{10}$$

$$= 50\%$$

Example 2: It costs \$10 for a manufacturer to make a hat. If the manufacturer maintains a 20% margin, the wholesaler places a 10% markup, and the retailer places a 30% markup, what is the cost of the hat for the customer?

Recall Supply Chain: Manufacturer → Wholesaler → Retailer → Customer



Manufacturer Price:

$$= \frac{\text{Cost}}{1 - \text{Margin \%}}$$

$$= \frac{10}{1 - 20\%}$$

$$= \$12.50$$

Wholesaler Price:

$$= \text{Cost} \times (1 + \text{Markup \%})$$

$$= 12.50 \times (1 + 10\%)$$

$$= 12.50 \times (1.10)$$

$$= \$13.75$$

Retailer Price:

$$= \text{Cost} \times (1 + \text{Markup \%})$$

$$= 13.75 \times (1 + 30\%)$$

$$= 13.75 \times (1.3)$$

$$= \$17.88$$

Customer Cost:

$$\$17.88$$